Timeless lessons for a lifetime

Getting to truly understand Warren Buffett and Charlie Munger is as much an unlearning process as it is a learning one

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As a young Chartered Accountant starting out in financial services, the first time I heard of Warren Buffett was in 1995. We were in merchant banking (as investment banking was known those days, mainly doing IPOs) and had approached one institutional investor to pitch for shares we were issuing. The investor said, "Oh, don't tell me about prospects for a year or two. I am a long-term investor like Buffett." I heard that and in the hectic work days of merchant banking, I promptly forgot about it. Later one would sporadically hear about Warren Buffett and his track record but I never got curious enough to know more. In fact, the jury was out in the late 1990s whether he was too old school and could not adapt to the new world of internet companies. I had no strong views but I failed to understand how a company could suddenly be valued differently the moment it changed the company name to indicate a technology business. I was leaning towards Buffett's views that there was something like a bubble forming.

That somewhat indifferent approach changed in the years 2000-2003. A few things happened then. The dot-com boom came to an end. 2001 was the year I joined Parag Parikh Financial Advisory Services (PPFAS) but, before I joined, I had a few weeks break. During that break, my wife redeemed a few of her credit card bonus points and we headed to a bookstore for our periodic book buying binge. It was then that I came across a somewhat fat book, *Of Permanent Value: The Story of Warren Buffett* by Andy Kilpatrick. I was hooked. I had joined PPFAS on the fixed income brokerage desk but I had the good fortune of interacting with people such as Chandrakant Sampat and Parag Parikh and also made a deep friendship with Nirjhar Handa. There was no looking back from that time. In 2003, I effectively abandoned the fixed income desk and moved to equities full time.

Reading about Buffett and interacting with my mentors and friends, for the first time, I realised the enormity of the power of compounding. I knew all the financial formulae but had never internalised the process of letting the compounding work over extended periods of time. The other factor that was a significant change for me was that predicting near-term raw-material prices, demand, competition, macro numbers, events etc., did not matter at all. An entirely new set of parameters came to the fore. Management quality, moat / competitive advantage, capital efficiency, low leverage, predictability of business, margin of safety and so on were the real things to look at. To an extent, this was as much of an unlearning process as it was a learning process.

My first visit to Omaha happened in 2011. By that year, I had spent a significant amount of time reading everything that was there to be read about Buffett. I would eagerly await the transcripts of the meeting on the internet but being the tight-fisted person that I am, I never got around to spending money to travel all the way to attend the meeting. Finally, my mentors and friends, Parag Parikh, Megh Manseta and Nirjhar Handa encouraged me to go to Omaha.

The trip paid for itself in a very, very short period. At the meeting, Charlie Munger spoke about the book *In the Plex* and Google in glowing terms. He said all of this in a wistful tone. He said that he may never use the ideas from reading the book but other people could and it was amazing what the engineering cultures in new companies were achieving. It immediately aroused interest in me and for all of us at PPFAS to figure out overseas investing. That came about in 2013 and Google (Alphabet now) continues to be our top holding in the fund!

Munger's talk on Google was amazing for one more reason. At the time of the IPO of Google, Munger had been very sceptical about the prospects for investors and he was in a way admitting that he had been wrong earlier. This is a very important trait for successful investors. The ability to change one's mind when the evidence says that you are wrong.

Post 2011, I went for the Berkshire Meetings in 2014 and 2015. One of my trips also taught me another very important life lesson, in terms of applying the concept of Margin Of Safety for all aspects of life and not just investing. For one of the meetings, I was booked to land in Omaha on Friday afternoon and the meeting was on Saturday morning. This I realised was not enough Margin Of Safety. There was storm on the east coast and the flights to Omaha were delayed by a day. I somehow got to Kansas City on Friday afternoon and then went by road to Omaha reaching by Friday evening but there were some tense moments.

THE ABILITY TO CHANGE ONE'S MIND WHEN NEW EVIDENCE SHOWS THAT YOU ARE WRONG IS A VERY IMPORTANT TRAIT IF ONE WANTS TO SUCCEED AS AN INVESTOR

The other interesting thing was being seated next to a shareholder family who were invested from the Buffett Partnership days and were now in their third generation. It was amazing to see the love and respect that Buffett gets from old-time shareholders and the learning of not disturbing a good investment in periods of temporary trouble. The shareholders mentioned that they did not look at stock prices too frequently and that they stayed invested through the ups and downs. They were not perturbed by the dotcom boom bust, Salomon Brothers scandal, David Sokol troubles and so on. Further, they were looking at wealth as getting them financial independence rather than as a means of upgrading their lifestyle. In fact, many Berkshire shareholders over the years have almost cloned Buffett's way of thinking or maybe they were like-minded from day one and hence were attracted to Buffett Partnership and Berkshire.

Overall, my learnings from Buffett and Munger over the years have been many:

- Spending time on macros is mostly a waste of time.
- Management quality is paramount while investing. This is especially true in the Indian context where historically governance standards have been somewhat lax.
- Even good management, however sincere, cannot succeed in terrible businesses.
- It is always better to keep leverage in check in the businesses you invest in. As Buffett would say: if the managers are smart, they don't need leverage and if they are dumb, leverage will kill them.
- It is better to buy high-quality businesses at reasonable prices rather than buy poor-quality businesses at great prices. This is very true in the Indian context. In my opinion, in a market like the US, one can buy poorly run companies and there can be some activist action which can unlock value. In the Indian context, where the promoters have high stakes in their companies, it may be difficult to dislodge them and many a purchase at undervalued prices have seen the intrinsic value of the company decline rather than the stock price of the company increase.
- One does not get great investment ideas everyday. One has to keep the powder dry (cash) to deploy when the opportunity arises. This was somewhat in conflict with the way traditional mutual funds were run. We would not buy if opportunities were not very attractive and have some cash. Now a days, of course we have a category of dynamic/hybrid funds, which can stay in cash but we were among the very few mutual funds who would keep cash when we did not find good ideas.
- High activity and churn is the enemy of long-term compounding.

It's not without reason that the Berkshire Annual Meeting is like a pilgrimage for investors from across the world. People who have read Buffett or seen videos or visited Omaha for a while keep getting asked this question — "What is the new thing that was said at this meeting?" In my view, that is the wrong question to ask. Almost everything that they say is timeless and the reason for repeating the reading and viewing is that the best way to learn any subject is spaced repetition. The mind tends to quickly forget things and unless lessons are repeated periodically, the learning gets lost forever.